Businesses Must be Prepared for Change

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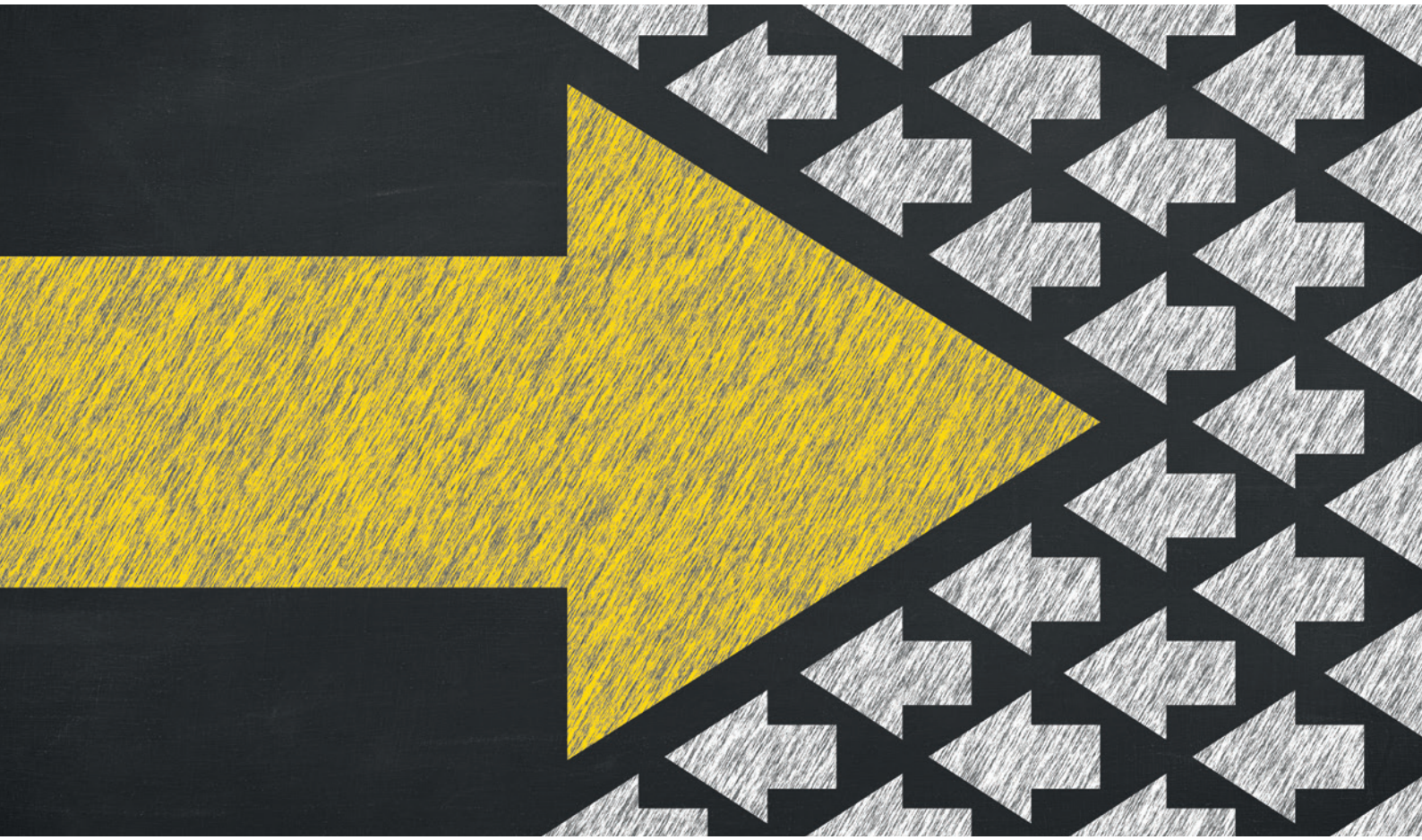
Founding Partner of Albia Capital - IMAP Spain, Fernando Cabos, explains why in the wake of the COVID pandemic, companies, regardless of the sector, can't afford to do nothing in a world where everyone else is running. He advises company owners to take a long hard look at their businesses to determine the right course of action, not to put off making tough decisions and above all, be prepared for change.



Doing Nothing is Not an Option

For many businesses, the COVID pandemic has come around all too soon. Still not fully recovered from the 2008 crisis, countless already financially fragile companies are now facing fast-moving unexpected variables and disruption. Even those with existing crisis plans simply couldn't be adequately prepared for the significant initial impact, nor the long-term fallout of the pandemic and it's now make or break time for many companies.

Unfortunately, whereas a failing company used to be an opportunity for the one next door, in the current climate, everyone loses. Globalization means that your competition is now international and should say a

manufacturing company close, net employment losses would be suffered, with much of the business moved to other countries. Therefore, it's crucial that companies carry on, otherwise businesses will be lost.

Running on Borrowed Time

Government economic injections in the form of support initiatives or rescue deals at the start of the pandemic, mean that we are currently seeing a lot of liquidity. Furthermore, ERTE furlough schemes in Spain have recently been extended and continue to sustain employment. However, though this has bought extra time for many companies, none of these measures are infinite, meaning sooner or later, the deferred tax payments will be due and loan grace periods will run out. So, what then?

While we're in this moment of paralysis, and things are ticking along, it's all too easy to put off making difficult decisions. However, doing nothing is not an option. Companies simply can't afford to be left behind, and stand still whilst everyone around them continues to move forward. Many businesses won't have recovered, even with the financial aid received and are now faced with the question of what happens next.

Investors Invest in Projects Not Problems

The immediate focus for businesses should be on preserving liquidity - cash is king - and adjusting expenses in realtion to real income. This should be followed by a complete analysis of the business, asking whether it has the necessary pipeline and size to be competitive. The resulting action plan very much depends on the outcome of the analysis and we would encourage businesses to look for and execute new routes.

It's in crisis situations that a company owner's reaction is to look for the perfect investor who can provide the company with funds to "cover the financial hole".

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The bad news: Investors invest in projects, not in problems. Therefore, the company needs to implement restructuring measures to overcome the crisis situation and then design a new project that offers the profitability sought by investors – don't forget, investors who invest in non-performing companies do so with the objective of turning the companies around with their own resources and remunerating themselves with the subsequent value created. Consequently, they do not need either the current shareholders or part of the management team.

Grabbing the Bull by the Horns

Regardless of the sector, company owners now need to take an honest and long hard look both at their business and themselves as leaders. Getting out of the crisis situation, in addition to commencing a new project, requires clear leadership, credibility and enormous amounts of energy to align the interests of all parties involved. Facing this situation with exhaustion and a lack of courage to deal with a new crisis is synonymous with failure, perhaps not immediately but certainly in the mid- term.

It's not an easy question, but it's time to ask: is there sufficient belief, leadership, energy, and commitment from the top down? At the end of the day, if a company owner doesn't believe in their own project, no one else will. Do they have the drive and capacity to lead the

company through this crisis? Are they able to transmit credibility to their workers, banks, suppliers, and clients? If not, then perhaps it's time to step-aside. Can someone else from inside the company take over, or is it time to look at options to integrate into another company?

Diversification and Distributing Risk

Historically, banks have been the principal external source of financing for companies in Spain. However, with a new wave of bank mergers, the number of banks is reducing. Banco Popular merged with Santander, the same will happen with CaixaBank and Bankia, and looks likely with Liberbank and Unicaja. Following the mergers, companies that previously had financing with a diversified bank pool and as such, distributed risk, will now find themselves with their entire debt sitting with just a short number of entities.

As such, we strongly recommend that companies diversify financing sources. The good news is, that companies do have alternative options. Since 2016, we have seen a significant increase in the amount of complementary alternative financing provided by debt funds; for working capital and for the long-term and asset-based financing. Many companies will find that these adapt better to their needs, though of course, each business is different, so it very much depends on their unique situation.

When Selling or Merging is the Most Viable Option

It's clear that even in a normal scenario, smaller companies face significant challenges compared to larger businesses: acquiring technology, attracting, and retaining talent and keeping up with clients etc. COVID has not only accelerated issues, but also manifested them. It's also harder for small companies to access financing, hence if we look at our local Spanish market for example, it's not surprising that between 2008-2019, just 3% of the bankruptcies were companies with 100+ employees, compared to the 80% with between 1-19 employees, though of course our market is dominated by SME's.

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For many, selling or merging provides the option to ensure the survival of the business. We have already seen many successful examples, including big names such as Iberdrola or CIE Automotive, who have been acquiring and integrating companies throughout their growth trajectory, and because of the current economic situation, we are going to see more, be it voluntarily, or involuntarily.

One Size Doesn't Fit All

At the end of the day, each business is unique and it's clear that one size does not fit all. We understand not only the market, but also our clients, having been corporate managers prior to being advisors, which provides us with essential strategic perspective to best guide them in these turbulent times. We are here to help them assess their businesses, make the difficult decisions and prepare for necessary change. ■